97-84094-14

Hord, John S.

The sales tax

[S.l.]

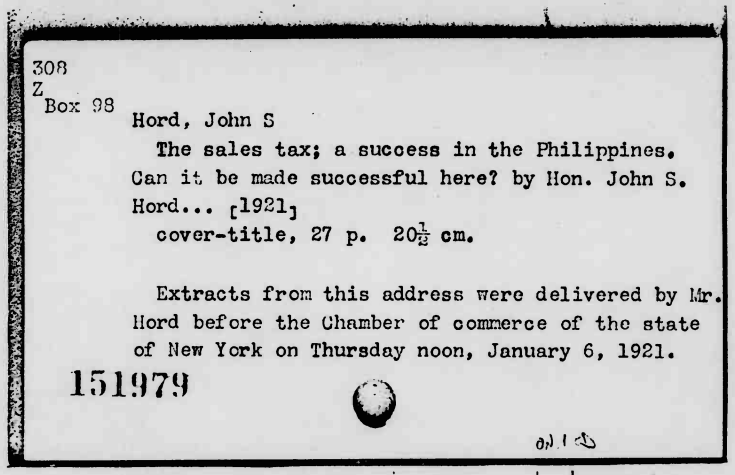
[1921]

97-84094-14
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD



308
Z
Box 98

Hord, John S

The sales tax; a success in the Philippines. Can it be made successful here? by Hon. John S. Hord... [1921]
cover-title, 27 p. 20½ cm.

Extracts from this address were delivered by Mr. Hord before the Chamber of commerce of the state of New York on Thursday noon, January 6, 1921.

151979

RESTRICTIONS ON USE: Reproductions may not be made without permission from Columbia University Libraries.

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 9:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 5-21-97 INITIALS: FB

TRACKING # : 22163

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

Box APR 1 0 1932

308
Z
Box 98

The Sales Tax

A Success in the Philippines. Can It Be Made Successful Here?

By

Hon. JOHN S. HORD

Extracts from this address were delivered by Mr. Hord before the Chamber of Commerce of the State of New York on Thursday noon, January 6, 1921.

(Mr. Hord was Collector of Internal Revenue in the Philippines during the first six years of the operation of the Sales Tax, having prepared the original plan adopted by the Philippine Commission and in successful operation ever since. Mr. Hord was President of the Bank of the Philippines for eight years and also was President of the Manila Merchants' Association.)

This book is due two weeks from the last date stamped below, and if not returned at or before that time a fine of five cents a day will be incurred.

APR 7 - 1937		
due April 26		

and to eventually become so prosperous during the regime of President Porfirio Diaz.

Naturally, since landing here, it has been quite a revelation to me to hear the system of taxes on sales called all kinds of hard names by economists, professors, government officials and others. Leaving behind me but a few days sail from New York, a well organized and productive sales tax law—and which had been so for about thirty years—I could not immediately so yank my mentality around as to admit that if transplanted to the soil of this country a sales tax law would *ipso facto* become "unsound," "impracticable," contrary to "social justice," a threat to the "living wage," etc.

Furthermore, my experience as tax administrator in the Philippines and the satisfactory working to my knowledge of the sales tax law there during the first thirteen years of its life (i. e., up to the time I left the Islands) made me suspect that the opponents to the introduction of a sales tax law in this country were either ignorant of recorded facts or else were mutilating recorded facts in a vain attempt to make them conform to their preconceived theories. I shall quote some of their statements. Thus:—

My old friend Dr. Adams, of Yale, in a monograph which he wrote last April, for the information of the National Industrial Conference Board, expressed the opinion that a gross sales tax in this country would be "unsound" and "impracticable"; that it could not in the majority of cases be shifted by merchants to consumers and would, therefore, have to be borne by "business men" whose taxes were already too heavy.

Hon. Ogden L. Mills, Chairman of the Advisory Committee on Policies and Platform of the Republican National Committee, reported that a general sales tax would be "heavily cumulative," would "penalize small independent business concerns," and, amongst other faults, "would create an almost impossible administrative burden."

The Tax Committee of the National Industrial Conference Board in a Tentative Report stated that inasmuch as the advocates of a sales tax claimed that it would be shifted, it should, therefore, not be approved because it would be "a tax against the living wage" and one that could not be defended on "grounds of social justice." (*Note!* Consider this argument, to the effect that the consumer should not bear the tax burden, together with Dr. Adams' argument above, that neither should the business man be required to bear the tax burden.)

The Secretary of the Treasury in his last Annual Report on the State of the Finances, says:—

> "I can see no justification for a general sales tax designed to substitute indirect taxes, falling on the consumer, for the income tax which now furnishes the backbone of the Federal fiscal system. * * *"

In a letter to Chairman Fordney of the Ways and Means Committee, which is quoted in the Report, the Secretary says:—

> "There are many grave objections both to the proposed new war profits tax and to the alternative measure, a sales tax, which I understand your Committee is considering * * *"

And further along in his Report, the Secretary adds:

> "Further consideration of the subject has con-

vinced me that a general sales or turnover tax is altogether inexpedient."

The Committee on Taxation, appointed by the Chamber of Commerce of the United States, after a year's study of the tax problem, reported a few days ago that in its opinion the sales tax would prove to be "impracticable" in this country. This report was included in the Chamber's referendum to its members—business organizations throughout the country—but the Chamber itself announced its neutrality for the time being.

Present Status of the Philippines Sales Tax

Occasional references were made by the opponents of the sales tax principle to the good points in the Philippine law. But they were made in an off-hand sort of way as if the success or failure of that law had little bearing on the subject under consideration. And this notwithstanding the following facts—all well known or easily ascertainable:

1. That the sales tax is the biggest revenue producing item in the Philippines' tax law.

2. That it has been in operation for nearly sixteen years.

3. That in the course of the twenty-two years which have elapsed since American occupation, the commercial and industrial conditions and methods in the Philippines have become thoroughly Americanized.

4. That on July 1st of this year the Senate and House of Commons of Canada inserted in its revenue act a fairly faithful replica of the Philippines sales tax, on commodities of

most kinds, a liberal list of exemptions being provided; even the tax rate on individual turnovers in Canada is fixed at same rate as in the Philippines, i. e., 1%.

5. That on June 25th of this year the French government also adopted a 1% sales tax, for federal purposes, on sales in general; one-tenth of one per cent. additional being imposed for local purposes.

6. That even England herself—the mother of income taxation—is being urged to establish a sales or turnover tax. A few weeks ago the "London Financier" published an interview which Lord Leverhulme gave in this city and which was cabled to London on the eve of his sailing for that city. Lord Leverhulme said in the course of the interview:

> "I have been a small grocer myself and also a commercial traveler who has called on them for orders, as I know that business."

The interview continues:—Lord Leverhulme urged that the tax should be uniform in rate equally for luxuries and articles of daily consumption. Luxuries, he said, could be reached by surcharges and other means, and any attempt to differentiate in the turnover tax would lead to confusion and difficulty. He also urged that the tax rate in England should be fixed uniformly at one and a quarter per cent. because that would just equal three pence per pound and make the calculation of tax dues easier for the small merchant.

Now does it not seem to be too much of a coincidence that both Canada and France should, within a few days of each other, adopt a gross tax on sales, and both at a 1% rate on each turnover, and furthermore, that England

should be urged to do practically the same thing a few months later?

Also is it not too much of a coincidence that when Mexico, the Philippines, Canada and France, had each emerged from expensive wars, with depleted revenues and inflated foreign and domestic obligations, that each should have appealed, and not in vain, to sales tax laws for relief?

And if these similar results are not due to coincidence, then it would logically follow that just as the Philippines patterned their tax law, sixteen years ago, after that of Mexico, so Canada and France have patterned their tax laws, this year, after that of the Philippines. And it is pertinent to observe in this connection that there are many shrewd observers from all foreign nations doing business in Manila and perfectly willing (and rightly so) to copy what seems good to them and to their respective countries.

But if Canada and France and England have been able to find something in the Philippines worth imitating, why have not our Washington officials and American tax experts of all persuasions been able to do likewise? Surely the United States should be in as close touch with the Philippines as are the other countries enumerated.

Thinking these things over I decided to ascertain the real facts. I got in cable connection with a friend in Manila who could readily obtain and send me all pertinent data as to the sales tax status, prospects, etc. I also called on my old friend the Honorable Isauro Gabaldon, Resident Commissioner from the Philippines at his office in the House Office

Building in Washington. He arrived from Manila a couple of months ago to attend the present session of Congress. Therefore he was well posted on late developments in the Philippines. I asked him what had happened to the Sales Tax during the three years I had been away from the Islands—that is, if there was still such a thing out there as a Sales Tax. He gave me the letter which I hold in my hand and which reads as follows:—

"House of Representatives
"Washington, D. C.
"December 8, 1920.

"Mr. John S. Hord,
"Washington, D. C.

"Dear Sir:—

"In answer to your inquiry I take pleasure in stating that the Sales Tax imposed in 1905 in the Philippine Islands continues to this date to produce substantial revenue. Since the initial opposition to this tax, which lasted only a few months, I have heard of no further opposition to the payment of the Sales Tax and, therefore, believe it is being collected with little, if any, opposition on the part of the taxpayers.

"Very truly yours,
(Signed) "ISAURO GABALDON,
"Resident Commissioner from the Philippines."

From Manila I learned that the Philippine Government had mailed to the Secretary of the Treasury in Washington a report to the effect that the Philippine sales tax was the most productive, accurate, satisfactory and equitable tax they had, that its administration was not expensive and that it produced no public complaint. That the rate had been increased several years ago from one-third of 1% to 1% and that notwithstanding a criticism that

some commodities paid the tax more than once, the Philippine Government had under consideration a plan to again increase the tax rate, this time from 1% to 2%. It often takes mail matter over a month to travel from Manila to Washington. No doubt when this report reaches the Secretary of the Treasury he will communicate its contents to the Ways and Means Committee, and otherwise make it public.

Thus it was that circumstances have forced me to take part in the discussion of the sales tax proposition in this country. I decided that I had no option in the matter. The serious financial condition and the immediate need for additional and adequate revenues, so graphically described by Secretary Houston in his last Annual Report, makes it incumbent on each one of us to help to the extent of his ability.

I shall now outline the essential features of the Philippine sales tax law and its operation.

Puerto Rico and Philippines Tax Laws

Due to their change of nationality, coming as a result of the Spanish-American War, Puerto Rico and the Philippines lost the export markets they had enjoyed under Spain, and the Washington Congress could not see its way clear for several years to allow Puerto Rican and Philippine products access, duty free, to this country.

Both of those insular possessions were allowed to keep for their own use all customs revenues collected on imports from all other countries including the United States. And these customs taxes were, practically, their

only source of revenue. Therefore, Washington feared that reciprocal free trade between this country and these insular possessions would mean the prompt bankruptcy of both of the latter, inasmuch as thereafter all of their imports would be non-revenue producing because they would all come from the United States.

This resulted in commercial and industrial stagnation in Puerto Rico and the Philippines. The only hope held out by Congress was the promise that whenever these insular possessions had provided a source of revenue ample for their needs, and independent of customs duties, they could expect reciprocal free trade with the United States.

The only solution was the adoption of internal revenue systems in both localities. Puerto Rico tried the experiment first. From 1900 to 1903 I was engaged, first, in helping prepare a revenue law for that island and thereafter, in administering it as Collector of Internal Revenue.

Finally the revenues collected were sufficient; Congress was satisfied and Puerto Rico got free trade with this country and within a few years became very prosperous. Then Secretary Root—who at that time had charge of insular affairs—detailed me to duty with Judge Henry C. Ide, then Secretary of Finance and Justice in the Philippine Islands, and temporarily in this country. For two months at his home in St. Johnsbury, Vermont, we elaborated a tentative plan for an internal revenue system for the Philippines containing such usual items as stamp taxes, spirits, tobacco and license taxes, and taxes on banks, insurance companies, etc. But we did

not, at that time, include in our scheme a tax on the general business done by merchants and manufacturers of all kinds of commodities, wares and merchandise. It was decided to postpone the elaboration of this important tax item until local commercial and industrial conditions in the Philippines had been carefully studied on the ground.

In August, 1903, I arrived in Manila and delivered to Governor Taft the tax project lacking, of course, the business tax, or sales or consumption tax as it was afterward styled. Governor Taft requested that I prepare a tentative plan for such a tax and directed that I should be furnished all necessary data and assistance.

Philippine Taxation Problems

The problem I encountered was to convert a very complicated system of license taxes (known as the *"Industria"* law under the Spanish administration) into a consistent, uniform tax law easy to understand, assess and collect. In referring to a report I made at that time to Judge Ide I find that I described the Spanish tax law as follows:

> "In final analysis the *Industria* tax proves to be a combination income, corporation, franchise, business license, occupation license, excise, industrial, import and export tax."

I also stated that

> "Judged by American standards as to what constitute the various methods of taxation it would be much simpler to describe what the *Industria* is not than to define what it really is."

(Of course I referred to the American standards of internal taxation which obtained at that time—seventeen years ago. At present most Americans will recognize the familiar

ring of such a *pot-pourri* combination of taxes.)

Finally, on November 18, 1903, I submitted to Judge Ide for enactment into law, or for such action as the Philippine Commission should see fit to take, a scheme for a sales tax at a one per cent. rate per turnover whether by manufacturer, wholesaler or retailer. (Note! The Philippine Commission enacted this law at a one-third of one per cent. rate but later this rate was increased by the Philippine Legislature from one-third of one per cent. to a full one per cent.)

I find from my records that in my letter transmitting this scheme of taxation to Judge Ide and to the Philippine Commission, I said:

> "In the preparation of the enclosed draft of a tax on business, manufacture and occupation I have endeavored to secure—
>
> "1. That the rule of taxation should be uniform throughout the islands.
>
> "2. That the manner of the assessment should be simple, intelligible to even the most ignorant taxpayer, and that it be not repressive of any business or industrial enterprise.
>
> "3. That the occupation taxes on professions, trades and arts be limited in number, so that the various municipalities may have an ample scope of objects on which to impose and grade municipal occupation taxes sufficient to meet any deficiency in their local revenues for any year.
>
> "4. That the payment of the taxes should, to the extent possible, be made automatically.
>
> "The system of taxation proposed in the enclosed draft may be described as an indirect tax on certain personal property collected at the time of change of ownership. All personal property is not reached by this tax but such kinds of personal property as are not here included will, to a certain extent, incidentally pay other taxes imposed in the proposed law * * * fortuitous profits and moneys received for

services rendered are reached in some way in the stamp tax schedules. Such property as *carromatas* and other vehicles, boats, etc., are not reached in the draft here submitted, but are properly left as objects to be taxed exclusively by municipal corporations. And finally if work stock, agricultural implements and agricultural products consumed by the farmer himself or sold by him are not taxed, it is probably a wise exemption."

"Whether or not there is any absolutely certain, complete and equitable method devisable for the assessment of personal property will probably forever remain an unsolved problem. I submit the inclosed draft of law because I believe it will eliminate most of the objectionable features of the existing law, establish a more uniform rule of taxation, and will put merchants and manufacturers on an even footing in-so-far as such equal rights and opportunities can be secured by legislative enactment."

And I am glad to be able to now testify to the fact that it was that spirit of even-handed justice, I have just cited, which permeated all officialdom in the Philippines in those days. It was and continued to be that same spirit in which the Philippines sales tax law was enacted and enforced. And we did not attempt to fool ourselves as some supposedly wise men are endeavoring to do to themselves in this country *tonight.*

The Tax Burden is Equitably Distributed

We knew that normally the ultimate consumer paid with the price of his purchases the accumulated taxes thereon; but we also knew that the accumulated taxes, due to several turnovers, seldom exceeded 3% of the purchase price of his goods, and usually was less than 3%.

We knew that most taxes can be shifted; but we also knew that a man must die to beat

a poll tax and come to life again to beat an inheritance tax on his estate.

We also knew that a sales tax can be shifted all along the line until the food or clothes or other commodities come into the possession of the ultimate consumer; and then we knew that the final incidence of the sales tax would rest on that ultimate consumer and would continue to rest there even though he got sulky about it and gave the food or clothes away and went hungry or cold in a fit of spite.

Therefore, we knew that easy as it was for the manufacturer or dealer to shift the sales tax along the line, it was impossible for him to do so any further when he himself assumed the role of ultimate consumer, which he inevitably had to do at times, and that then he was "it," as the children say when playing tag.

And so we soon understood, and always remembered, that the sales tax is in reality a tax graded according to each consumer's ability and willingness to pay—than which there could be no fairer method of assessment. Thus the ultimate consumer of moderate means would buy fewer or cheaper or fewer *and* cheaper commodities than would the well-to-do ultimate consumer—at least that is the almost invariable custom. Result:—Inasmuch as the sales tax rate is a percentage one, the weight of the tax burden resting finally on the well-to-do ultimate consumer is very much greater than is that resting on his poorer neighbor. Therefore, the sales tax is in reality graded according to each consumer's ability and willingness to pay.

When this tax law was first promulgated there was a universal protest of discontent. Today there is scarcely a murmur. This

happy result is probably due to the following facts—now well established.

It is easily assessed and fully collected. Therefore there are no non-taxpayers to enjoy an unfair advantage over law abiding competitors. There are no provisions in the law impossible of fulfilment and all administrative regulations were made to fit commercial conditions.

The tax rates are low yet—

The tax collections are ample for all needs —which together with the present general satisfaction with the law would seem to indicate that the total tax burden is evenly distributed.

Internal revenue stamps are in no case affixed to articles of merchandise coming into the hands of consumers. The stamps are glued to merchants' licenses and to invoices from the manufacturer to the merchant, but never are they glued to the goods themselves. Therefore, the ultimate consumer is allowed to forget (and has forgotten) that he is paying a tax.

A few days ago a friend, formerly for several years in Manila now on Wall Street, asked me what all of this newspaper talk about a sales tax was about. I told him it was the same tax that he, as an ultimate consumer, had paid in Manila for several years. He swore he had not paid a cent. I told him perhaps he had done so unwittingly but he was not convinced. I then assured him that he had just paid the Philippines sales tax law the finest and most genuine compliment it had ever received.

I should like to explain fully the details of the method we adopted for the collection of

the taxes, and would do so had I sufficient time. But it is really very simple—almost automatic. No receipts are ever issued nor are long complicated audits required. The tax payments are made by the affixture to invoices and licenses of serially numbered stamps of various denominative values. This is what makes its administration so inexpensive as the Philippine Government has recently informed the Secretary of the Treasury in a report probably still in the mails between Manila and Washington.

Those seeking more specific information I would refer to the January, 1907, issue of the Johns Hopkins University Studies in Historical and Political Science (Series XXV No. 1) entitled "Internal Taxation in the Philippines." This article I wrote after two years operation of the new tax system.

Judge Taft was succeeded as Governor General by General Luke E. Wright; then Judge Henry C. Ide, then General James F. Smith, now a member of the Court of Customs Appeals in Washington.

The Sales Tax Did Justice to the Poor Man

During his inaugural address, as Governor General in referring to all that America had accomplished in the Philippines, General Smith said:—

> "She destroyed without hesitation a wrong system of internal taxation which imposed upon the poor almost the entire charges of government, and for it she substituted a modern system of internal revenue which so distributes the load that every citizen is compelled to bear his fair share of the governmental burdens."

And this statement has remained unchallenged by any of the former opponents of the internal revenue law.

The Success of the New Tax System Made the Philippines Prosperous

It was during General Smith's regime that I was detailed to Washington, in 1908, to help convince Congress that the Philippines were collecting so much from internal revenue sources that they could get along without customs revenues. That, therefore, the Philippines would like to enjoy the same benefits of reciprocal free trade with the United States as Puerto Rico had commenced to enjoy six years before.

We did not get what we asked for in 1908, but we did in 1909, five months after Mr. Taft's inauguration. Since then exports from the Philippines have increased several fold—mostly to this country. The external commerce of the Philippines, exports and imports, is today approximately at the rate of three hundred million dollars annually. Had our internal revenue law, especially the sales tax, been a failure these results could not have been attained and the value of American exports would be worth annually about one hundred and fifty million dollars less than they are today.

Summary

I shall now make what a certain crapshooter described as some "oderous" comparisons. In order to clarify the discussion as to the relative merits of the various tax measures already adopted and still suggested

in this country with those in force in the Philippines, I shall state a hypothetical case, thus:—Suppose some tax expert in Manila primed with transcendentalistic theories, but shy on the knowledge of the nature of the actual problems which daily confront the man who collects the taxes, should induce the Philippines authorities to call a referendum on the following question—

> "Can the Internal Tax systems of the United States and the Philippine Islands be so amended that hereafter the sources of revenue and the methods of collection shall be uniform in both localities?"

And let us further assume that amongst the queries submitted in the referendum are those which I have listed below. In that case I should have no objection to append my answers to those queries—as I have done below—all based on recorded facts.

"Queries in (hypothetical) referendum held in Manila, P. I."

"Those taking part in this referendum are requested to answer all queries either in the affirmative or negative, and to attach their reasons for their decision."

1. *Do you favor the "introduction" in the Philippines of methods similar to those in force in the United States for the assessment and collection of internal revenues?*

Answer:—No. Because their system has been subject to constant change during late years, is expensive and complicated, and right now prominent Americans, including taxpayers and tax collectors, are criticising that

system, or lack of system and are clamoring for further radical changes. Thus:—

(a) Former Commissioner of Internal Revenue Roper writes in *Commerce and Finance,* that "the taxpayer is forced to report income gains which have not yet been fully realized"; that taxes are being paid on "paper profits" which "are non-existant"; that "an excessive and unwarranted tax has already been collected from many of these taxpayers in the three instalments of this year"; that (as quoted in *World's Work,* January, 1921) the collection of the fourth instalment of the income tax would force under the hammer large productive plants, disorganize markets and throw thousands of people out of employment; and that the Government spends 25 millions collecting the taxes and the taxpayers at least 100 millions more preparing their tax returns, and that even then the Treasury Department admits that hundreds of millions of accrued taxes remain unpaid, due to "innocent errors" of taxpayers.

(b) Hon. Ogden L. Mills, Chairman of the Advisory Board of the Republican National Committee (see report) says, "There is a substantial unanimity of opinion * * * that the Federal tax laws should be revised."

(c) The present Secretary of the Treasury says (see Annual Report) that that is an "imperative need of a thorough revision of the tax laws"; that the "business interests of the country have a right to know in advance the rate of taxation they will be called upon to pay"; that there "should be a better distribution of the tax burden"; that "unwise taxes should be eliminated"; and asks whether "it

would not "now be advisable to seek out additional sources of revenue to meet the current requirements of the Government."

(d) President Wilson included in the few recommendations he made in his Message to Congress, the following:—"Closely connected with this is the necessity of the immediate consideration of the revision of our tax laws. Simplification of the income and profits taxes has become an immediate necessity."

(e) The Editor of *World's Work* (January, 1921) says that "the present system of taxation should be overhauled immediately"; that whereas there is little sympathy for the rich man, still in view of the fact that the present provisions of the tax law have produced as an economic result the investment of large surplus sums in tax-exempt securities, "it becomes an evil which adversely affects every bread-winner."

(f) The *New York Sun* (December 24), under the title "Income Tax Alleviation," refers editorially to a decision of a Federal court in Connecticut regarding exemption of certain profits:—"Some of these abuses the courts probably cannot reach. But Congress can. When the law comes to be rewritten, as it soon must, much attention will be paid to the hard fate of those who have only an occasional fat year, while their income in the real sense is moderate or even non-existant."

(g) Congressman Mondell, Republican house leader (Congressional Record, December 16), after referring to the Secretary of the Treasury's request for a revision of the tax laws and the imposition of new tax provisions, said to Congress:—"We are not jus-

tified in laying any such internal revenue burden on the people and the business of the country."

(h) The *Literary Digest* (December 25) after making a canvass of editorial opinion throughout the country, says: "In general Mr. Houston's positive suggestions are greeted with the remark that the Republicans are not likely to accept the ideas of an outgoing Democratic Secretary of the Treasury"; and the Editor of *World's Work* (January, 1921) expresses the opinion that "Quite apart from this opposition of the leader of his own party in Congress and apart from what attitude the minority party may take the probability is strong that Secretary Houston's proposals will have historic interest only." The reference above to the "opposition of his own party in Congress" refers to Congressman Kitchin's attack on Mr. Houston's plan for a revision of the taxes and methods of collections.

2. *Do you favor the introduction here of the Excess Profits Tax now being collected in the United States?*

Answer:—No, because—

(a) It will soon be no longer collected in the United States, at least the Secretary of the Treasury (see Annual Report) says it is "rapidly losing its productivity" and recommends its repeal.

(b) The Secretary of the Treasury describes this tax as: "So complex that it has proved impossible to keep up to date the administrative work of audit and assessment. * * * New returns are being made faster than old returns can be audited. * * * In

January, 1918, one well-known partnership paid nearly $1,125,000 more taxes than they would have paid had their business been organized as a corporation; and the contrary is quite as frequently true.* * * The tax does not attain in practice the theoretical end at which it aims. * * * It discriminates against conservatively financed corporations. * * * It is exceedingly complex in its application and difficult of administration."

(c) The U. S. Department of Justice after a study of the effects of this tax reports that its effects have been to increase the price of the necessaries of life over 23%.

(d) Mr. F. A. MacKenzie, in an article in the *Review of Reviews* (January, 1921) entitled "England in Deflation," says that the excess profits tax in England "hits the young and enterprising firm with particular severity. * * * That many firms have purposely slowed down because they realize that whatever move they made would go almost entirely to the government * * * It is confidently anticipated that the excess profits duty will be modified or repealed in 1921."

(e) The French High Commissioner in the United States has informed the American Government that France had repealed, because of non-productivity, her excess profits tax on June 30 of this year.

(f) Congressman McFadden has just introduced a resolution in Congress (see Cong. Rec. December 28) proposing a constitutional amendment to authorize the Federal Government to tax billions of securities, now exempt. This situation is caused by the fact that the high rates imposed by the excess profits tax

and income surtaxes have encouraged the investment of huge sums in tax exempt securities.

3. *Do you favor here the introduction of the income tax law of the United States?*

Answer:—No. Because—

(a) The Secretary of the Treasury in Washington (see Annual Report) writing of income surtaxes says:—"We are confronted with a condition, not a theory. The fact is that such rates cannot be successfully collected. * * * Tax returns and statistics are demonstrating what it should require no statistical evidence to prove. * * * The fact remains that to retain such rates in the tax laws is to cling to the shadow while relinquishing the substance. * * * The effective way to tax the rich is to adopt rates that do not force investment in tax exempt securities." * * * And in an article entitled "The Treasury's Plan for Federal Taxes," in the *Review of Reviews* (January, 1921) Secretary Houston adds:—"The simplest remedy for this situation would be a general reduction of the higher surtaxes accompanied by increases in the lower surtaxes."

(b) Chairman Fordney of the Ways and Means Committee said (see Cong. Rec. December 13), "I hope when we revise the present internal revenue law the form of the income tax return can be made very simple for each and every individual or corporation to make out their tax return, which is now really a Chinese puzzle."

(c) A friend of mine on William Street told me a few days ago:—"We are like that lost dog on the train they tell about. Neither

the conductor nor the passengers know where he is going. The dog ate his tag and he doesn't know. Nobody knows. That's just our fix. In this year's inventory we are writing off on our inventory, as we should, a $100,000 loss, based on the present market prices of goods on hand. Next year we expect, because of rise in values to get $25,000 of that back, and we are now warned that we cannot, for tax purposes, consider that $25,000 profits as written off against our last year's loss. We are told that next year we will have to declare and pay taxes on that $25,000."

(d) A young man on Worth Street told me last week:—"Why didn't they collect the taxes I ought to pay little by little from me last year, just like that sales tax worked when I lived in the Philippines? I wouldn't have felt it then—and I was getting a good income then. But now, when I don't earn much they make me pay my income taxes for last year."

(e) The Secretary of the Treasury says (Annual Reports)—"Complexity in tax laws violates the most fundamental canon of taxation—that the liability shall be certain and definite. * * * At present the taxpayer never knows when he is through. * * * This situation must fill the taxpayers with the gravest apprehension."

4. *Do you favor the introduction here of the American excise or luxury taxes on ice cream sodas and soft drinks of all kinds, on wearing apparel, sporting goods, etc.?*

Answer. No. Because—

(a) The Secretary of the Treasury in Washington has just asked Congress (see Annual

Report) to repeal all of these taxes, because they are "ill defined, uncertain, vexatious and widely evaded," and adds that "such evasion cannot be stopped" without incurring expenses greater than the tax collections would justify.

(b) Because even though these taxes could be collected they constitute a rather high tax (10 to 15%) on part of the working girl's and boy's lunch at soda fountains, etc., and in other respects, where they affect wearing apparel, sporting goods, etc., the numerous specific rates imposed are most annoying and expensive to merchants of all kinds from the large department stores to the small corner traders.

5. *Do you favor the introduction in the United States of the Philippine Sales Tax?*

Answer. I certainly do. Because—

(a) After the jumble of perplexing taxes they have been wading through in the United States for several years (and which still continue) the American people should be ready to adopt a just, simple, inexpensive and productive tax such as the Sales Tax has proved itself to be for sixteen years in these Islands.

(b) Because no less an authority than the Hon. Ogden L. Mills, Chairman of the Advisory Committee on Policies and Platform of the Republican National Committee, in a written report, referred to the Philippines sales tax as being in "successful operation," and added:—"Other things being equal it would be desirable in this country to test, by actual practice, side by side, the comparative virtues and defects of the sales tax and the income tax. * * * It would be, if not easy

and simple of operation, at least materially more simple and certain than the income and profits taxes."

(c) Because the American Secretary of the Treasury has just asked Congress to repeal some of the luxury and consumption taxes which he says are uncollectible at a cost which the amount collected would justify; whereas in the Philippines sales taxes on similar articles of consumption are being collected economically.

(d) Because notwithstanding the shifting and accumulation of the sales tax in the Philippines the almost invariable additional cost of commodities to the ultimate consumer, caused by such tax and such accumulation, based on the final sales price of such commodities, will average somewhere between 2% and 3%, with rare cases in which it will slightly exceed 3%; whereas in the United States the luxury and other consumption taxes run as high as 100% with an average between 10% and 15% for such commodities as ice cream and soft drinks, and also because the Department of Justice in the United States, after investigating, reports that one of the effects of the excess profits tax there has been to increase costs to the consumer by over 23%.

(e) Because the American people are already, many of them unwittingly, well acquainted with a tax quite analogous in its operation, to the Philippine sales tax. I refer to the customs duties which for nearly two generations have filled the coffers of the Washington Treasury. There is, however, this important difference between the sales tax and the customs duty:—The sales tax be-

gins at a very low rate and never accumulates perceptibly. The customs duty usually begins with a comparatively high rate to which the dealer adds a satisfactory percentage of profit along with his profit on the cost price to him of the goods themselves. Of course, the profit which the dealer makes on the amount of the customs duty is in the nature of a surtax which never reaches the American Treasury; whereas the sales tax in the Philippines collected from the consumer goes almost in its entirety to the tax collectors, inasmuch as the amount of sales tax itself being small, the surtax is very small indeed.

(f) Because with Canada on the north, Mexico on the south, France to the east and the Philippines to the west, all quaffing deeply of this sales tax brew, and smacking their lips for more, it is time that Uncle Sam sat up and took notice. This new brew is guaranteed to not seriously infringe the prohibition status of the United States, inasmuch as long experience in the Philippines has demonstrated that it rarely exceeds 3% to the ultimate consumer.

22163

END OF
TITLE